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Message Text

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15
ACTION EA-14

INFO OCT-01 ADP-00 AGR-20 EUR-25 NIC-01 IO-12 CU-04 AID-20

CIAE-00 COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01

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PRS-01 RSR-01 /202 W
---------- 012132
R 090730 Z MAY 73
FM AMCONSUL HONG KONG
TO SECSTATE WASHDC 6904
INFO AMEMBASSY TAIPEI
AMEMBASSY TOKYO
USLO PEKING

C O N F I D E N T I A L HONG KONG 4584

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E. O. 11652: XGDS-1
TAGS: ETRD CH
SUBJ: SPRING 1973 CANTON TRADE FAIR, PRELIMINARY REPORT

REFS: A) HK 3888; B) HK A-118; C) HK 1226; D) HK 318

SUMMARY: VISITS BY HONG KONG CONGENOFFS HAVE CONFIRMED PRESS AND TRADERS' REPORTS OF UNUSUALLY HIGH PRICES AND UNAVAILABILITY OF MERCHANDISE AT THE BEGINNING OF THIS SPRING' S CANTON TRADE FAIR. SOME WESTERN BUSINESSMEN HAVE EXPRESSED DISAPPOINTMENT OVER CHINESE INFLEXIBILITY ON PRICES AND HAVE LEFT CANTON EMPTY HANDED. OTHERS WITH MORE TIME AND PATIENCE HAVE STAYED AND APPARENTLY DONE BUSINESS. JAPANESE BUSINESSMEN APPEAR TO BE BUYING DESPITE PRICES, THE CHINESE CONTINUE THE PRACTICE OF RESERVING QUANTITIES FOR " OLD AND NEW FRIENDS ." WITH HIGHER PRICES AND REASON-ABLE TURNOVER, TOTAL VALUE OF SALES SHOULD SURPASS THOSE
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OF LAST FALL' S FAIR. END SUMMARY

1. VISITS BY HONG KONG CONGENOFFS HAVE CONFIRMED PRESS AND TRADERS' REPORTS OF UNUSUALLY HIGH PRICES AND UNAVAILABILITY OF MERCHANDISE AT THE BEGINNING OF THIS SPRING' S CANTON TRADE FAIR (REF B). CHINESE HAVE RAISED PRICES TO NEAR (OR IN SOME CASES ACTUALLY ABOVE) WORLD MARKET LEVELS RESULTING IN PRICE INCREASES OF FROM 40 PERCENT ON SOME FOODSTUFFS AND LIGHT MANUFACTURES TO 1,000 PERCENT ON ANTIQUES OVER THOSE CHARGED AT LAST FAL' S FAIR. A SAMPLING OF REPORTS FROM THE FAIR SHOWS PRICE INCREASES FOR RAW SILK (100 PERCENT), PORCELAIN (100 PERCENT), SHRIMP (40 PERCENT), CARPETS (100 PERCENT), METALS AND COMMODITIES (40 PERCENT). IN THE PAST THE CHINESE HAVE SET HIGH PRICES AT THE BEGINNING OF THE FAIR (THOUGH ALWAYS WELL BELOW WORLD MARKET LEVELS) AND THEN REDUCED THEM DURING BARGAINING SESSIONS. AT THIS FAIR, HOWEVER, CHINESE HAVE TAKEN A " TAKE IT OR LEAVE IT" ATTITUDE IN SOME BARGAINING SESSIONS.

2. WHILE SOME BUSINESSMEN HAVE ALREADY LEFT CANTON BECAUSE OF CHINESE RELUCTANCE TO REDUCE PRICES, OTHERS WITH MORE TIME AND PATIENCE HAVE REMAINED AND APPARENTLY DONE BUSINESS. IT IS STILL TOO EARLY TO TELL IF THE CHINESE WILL LOWER PRICES, BUT IT IS DOUBTFUL THAT THEY WILL LEAVE COMMODITIES AND OTHER MERCHANDISE UNSOLD. THE JAPANESE APPEAR TO BE BUYING DESPITE PRICES AND THE CHINESE CONTINUE THE PRACTICE OF RESERVING QUANTITIES FOR " OLD AND NEW FRIENDS." THEY WILL ALSO BE ABLE TO SELL COMMODITIES WHERE THE PRC IS AN IMPORTANT SOURCE OF WORLD SUPPLY. WITH HIGHER PRICES AND REASONABLE TURNOVER, THE TOTAL VALUE OF SALES SHOULD SURPASS THOSE OF LAST FALL.

3. THIS SPRING MAY, HOWEVER, MARK A TURNING POINT IN THE HISTORY OF THE CANTON TRADE FAIRS. WESTERN BUSINESSMEN HAVE EXPRESSED DISAPPOINTMENT AND EVEN BITTERNESS OVER CHINESE INFLEXIBILITY ON PRICES, PACKAGING AND LABELING REQUESTS, AND LACK OF MERCHANDISE. UNLESS THE CHINESE REDUCE THEIR PRICES BY FAIR' S END OR OFFER BETTER DEALS IN THE FALL, THE EXPERIENCE OF THIS FAIR MAY DISCOURAGE MANY WESTERNERS FROM DOING BUSINESS WITH CHINA. CANADIAN TRADE COMMISSION OFFICER JOHN LANGLEY TOLD US THAT
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CANADIAN ATTENDANCE WOULD BE LOWER THAN AT LAST FALL' S FAIR. SOME CANADIAN TRADERS WHO HAVE HEARD ABOUT THE PRICES WERE NOT BOTHERING TO MAKE THE TRIP.

4. THERE ARE SEVERAL IMPORTANT REASONS FOR THE PRESENT HIGH COST OF PRC EXPORTS. IN PART, PRICES AT THIS SPRING' S FAIR ARE A RESULT OF CHINA' S DECISION TO

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MAXIMUZE FOREIGN EXCHANGE EARNINGS TO PAY FOR RECENT PURCHASES OF MODERN INDUSTRIAL PLANTS, AIRCRAFT, ETC. (REF C). ACCORDING TO HONG KONG UK TRADE COMMISSION OFF JOHN WALER, CHINESE TRADE CADRE HELD A JANUARY MEETING IN PEKING TO DISCUSS THE FAIR. TIMING OF THIS MEETING, WHICH COINCIDED WITH THE FIRST PRC WHOLE PLANT PURCHASES FROM JAPAN (REF D), PROBABLY RESULTED IN A CHINESE DECISION TO GET MAXIMUM EARNINGS FROM SALES AT THIS FAIR.

5. HIGHER PRICES ARE ALSO PARTLY RESULT OF PRC EFFORT TO COVER SUPPLY SHORTAGES IN MANY COMMODITIES. WALKER AND LANGLEY BOTH BELIEVE THAT THE CHINESE OVERSOLD AT THE PAST TWO FAIRS AND MAY HAVE TROUBLE MEETING ADDITIONAL COMMITMENTS RESULTING FROM SALES AT THIS FAIR. THE CHINESE HAVE HAD DIFFICULTY MEETING DELIVERY SCHEDULES ON SALES FROM THE LAST FAIR AND MAY BE USING PRICES TO DISCOURAGE SALES ORDERS WHICH THEY CANNOT FILL. IN ADDITION TO NORMAL PRICE INCREASES RESULTING FROM HIGHER WORLD PRICES FOR RAW MATERIALS, THE CHINESE HAVE ALSO BECOME MORE AWARE OF THE RETAIL PRICES OF THEIR GOODS ON THE INTERNATIONAL MARKET AND HAVE RAISED PRICES TO GAIN A LARGER SHARE. HOWEVER, THEY MAY HAVE MISJUDGED THE STATE OF THE MARKET ON MANY ITEMS AND THE WILLING-NESS OF FOREIGN BUSINESSMEN TO PAY.

6. IN CONTRAST TO PAST FAIRS WHICH HAVE FEATURED NEW PRODUCTS AND DESIGNS, OBSERVERS REPORT " NOTHING NEW" AT THIS FAIR. WITH THE EXCEPTION OF A LESS THAN STATE-OF- THE- ART COMPUTER, PHOTO ENGRAVING EQUIPMENT, AND SOME ONE- OF- A- KIND MACHINE TOOLS, THE CHINESE APPEAR TO HAVE LITTLE NEW TO OFFER. ACCORDING TO WALKER, SOME ITEMS EVEN APPEAR DUSTY FROM NOT HAVING BEEN MOVED FROM DISPLAY CASES SINCE LAST FALL' S FAIR.
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